RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

SINCE 1958 •

POST OFFICE BOX 1759, LA JOLLA, CALIFORNIA 92038
26 LETTERS PER YEAR • $225 ANNUALLY

June 27, 1990 **LETTER 1046**

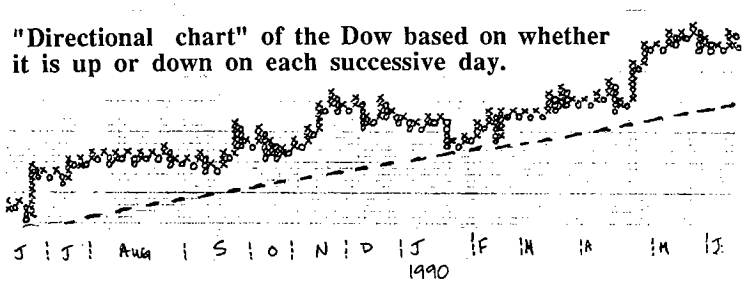
June 15 DJIA 2935.89; PTI 3276; A-D Ratio -9.68
June 22 DJIA 2857.18; PTI 3265; A-D Ratio -10.23
Dow Yield: 3.70%; Dow P/E: 13.8; DowPow: 387
Dow Book Value: 1075; Dow 200-day MA: 2712
Percentage of Undervalued Blue-chips: 20%
PTI 89-day Moving Average: 3258

SQUEEZE: Gee, I'm beginning to think that Fed Chairman Greenspan wasn't kidding when he said he wanted "zero inflation." Greenspan keeps telling Congress and the Administration that interest rates will come down when Congress produces a "credible" budget (something they haven't done in twenty years). In the meantime, the US economy declines to just this side of recession, but the Fed holds Fed funds at a stiff 8.25%. Greenspan appears to be pressuring Congress with the unwritten warning, "Cut the budget for real or we go into recession." Would he dare? Yeah, he would. After all, he's not running for re-election.

THE MARKET: Do you love this market -- or do you hate it? On the one hand, you can claim (with some justification) that the stock market's April-June rise was just technical in nature -- program trading, index fund buying, short covering, a market made for and manipulated by insiders, professionals and program traders.

On the positive side -- the rising trend in the PTI is still intact (see chart page 2). The rising trend in the Dow directional index is also intact [I continue to stress the importance of the Dow directional index, since it is the Dow that has been (by far) the strongest segment of this market].

"Directional chart" of the Dow based on whether it is up or down on each successive day.



This is important: it's my rule for an advancing market: *The rise will continue or at least hold together until the strongest segment of the market finally turns down.* Thus, I don't see this stock market heading down in a broad, all encompassing way until the Dow directional index establishes a definite declining trend.

It's a strange and erratic market. For instance, on June 15 with the Dow at a record high there were only 37 new highs on the NYSE. And last week my five-day moving average of new lows crossed above the five-day MA of new highs. Furthermore, at the June 15 Dow high none of the other averages (S&P, NYSE, Value Line, etc.) rose to confirmatory new highs of their own.

As far as the economy is concerned, the negative economic news is well known. Retail sales have declined three months in a row (the first time this has happened since 1981). Housing starts have declined for four months in a row, S&L bailout costs are horrendous, real estate prices are soft (even in California), many banks are in trouble with bad loans mounting, federal deficits continue to be shocking, and on and on.

So far, the stock market has been resisting the news. Could the market be listening to a different drummer? Is there something out there that Wall Street loves? Could it be the opening of the East European markets? Could it be great opportunities in the new united Europe of 1992? Or are US recessions a thing of the past? Has the government inspired so much investor-confidence (by bailing out everything in sight) that the stock market and the economy are now traveling on a perpetual up-elevator?

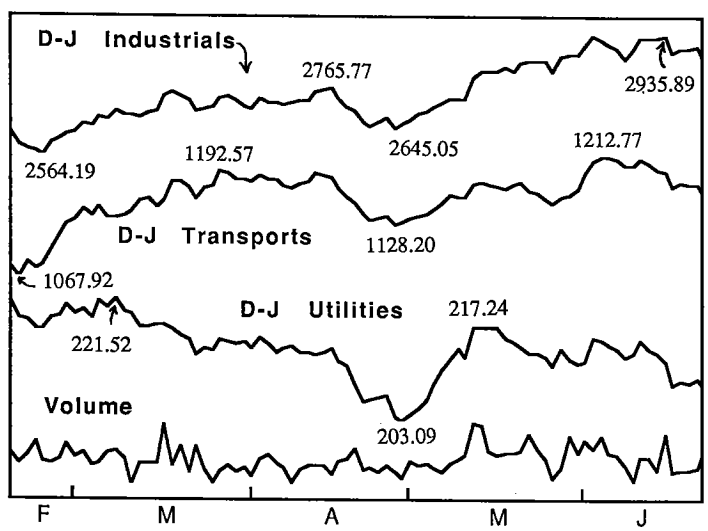
Then again, maybe we should lean on the old adage which states that, "The market always does what it's supposed to -- but NEVER WHEN." Is there a great bear hiding out there, a bear that will strike when the nation and Wall Street are most vulnerable? Ah, if we only knew the answers to some of these questions we'd be the richest - - - but why fantasize? Face it, this is not an easy business.

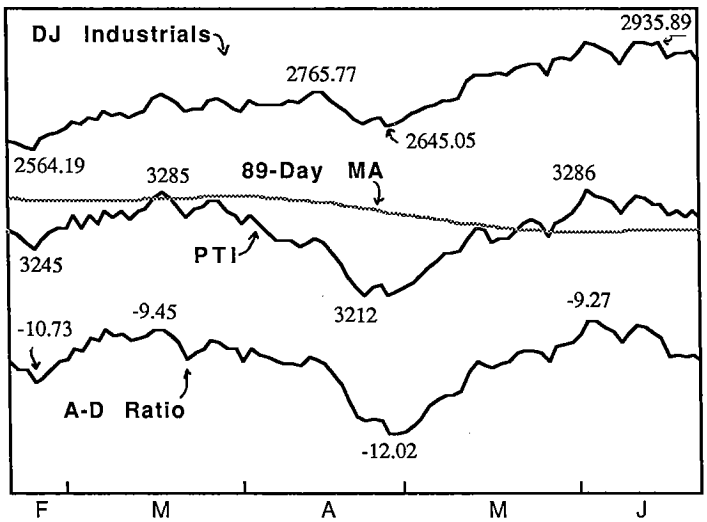
Let's look at the market from the Dow Theory standpoint (after all, the name of this service is still *Dow Theory Letters*). The Dow has been hitting new record highs in 1990. But the Transports have stubbornly refused to confirm, at least in a primary sense. To confirm, Transports would have to advance to a new high of their own -- above their September 1 peak of 1532.01. Currently, the carriers are more than 300 points below that peak.

Although it plays no part in classic Dow Theory, the Utility Average too has failed to confirm. The high for the Utility Average was recorded in January at 236.23. Historically, the Utility Average has, on many occasions, led the other Averages or set the trend. Thus, unless or until the Utilities move into a definite uptrend, we might take their lagging performance as a warning.

As far back as the 1930s Robert Rhea (the great Dow Theorist) noted that "all primary movements are international in scope." Today this adage takes on added meaning, particularly in view of the close connection of all the world's exchanges.

With this in mind, I find it worthwhile to watch the percentage changes of the various world exchanges as seen daily in the *Wall Street Journal* . In fact, if there's one statistic that might measure the global picture it would be the percentage change for the year in the





World Index. The latest figure shows the World Index down 9.1% so far in 1990. The question -- is a world bear market subtly in progress? That minus 9.1% hints at it, at least in my mind.

MONEY RATES: The key to US money rates used to be how the Fed and the bond market felt about the economy. Today, it ain't necessarily so. There are many more keys today, such as how the Japanese feel about buying US debt or how the inflation figures look in Germany or Japan or the current rates on British bonds. Big international money goes for the highest yields combined with safety. Along these lines, German three-year bonds are yielding 8.8%, and Japanese six-year bonds are yielding 6.7%.

But the hot items these days are British bonds which now yield over 12% on three-year paper. Furthermore, as an extra added attraction the pound has been super-strong, partly based on speculation that Britain will enter the European Monetary System's exchange-rate mechanism (this will help stabilize the pound and it will also contain inflation, leading to lower British rates). Recently a torrent of money (much of it Japanese) has poured into the British bond market.

Obviously, this tough international competition limits the Fed's power to bring down US interest rates at will. Today, we're living in a "one-world economy," and the big money goes where it will get the best deal in terms of safety, income, and appreciation.

PRICES: Glance at the commodity charts, and they're a shocker. Almost across the board, from soybeans to silver to crude oil, from oats to gold to corn to orange juice (with the single exception of cotton) -- almost every commodity is breaking down. This is deflation on the most basic level. But we are also seeing deflation in housing and at the retail stores (via vicious discounting). Now ponder this -- debt's worst enemy is deflation. Why? Because with deflation: (1) Money is worth more. (2) Money is harder to come by. (3) And the assets behind the debt -- are worth less. Result: big debts combined with deflation = bankruptcies.

INVESTMENT POSITION: Gad, wouldn't I love to put a bull in this box. But in good conscience I can't do it. With ten-months of divergence on the part of the A-D ratio and a nine-month non-confirmation on the part of the D-J Transportation Average, this market is at high risk.

I know records are made to be broken, but this market has been climbing for five years, and if it's up this year that action will constitute a sixth. The only other five-year climb was from 1924 to 1928. The year 1929 would have been the sixth year of rise -- but as you know Wall Street didn't make it.

T-bills remain in the 8% yield area, which (in view of their safety) puts them historically in the bargain area. By the way, don't worry about a scarcity of Treasury debt. For the fourth quarter (counting the Resolution Trust) you can expect an avalanche of $65 to $70 billion in Treasury paper to hit the market.

Note: My bond trading index (based on bond breadth) turned bullish on May 4, but has now turned bearish (bear signal came on June 21).

MAKING MONEY: Back in Letter #1004, I wrote a piece entitled, "Rich Man, Poor Man." I've had more requests for that piece than anything I've ever written. Because of the many new subscribers since Letter #1004, I've decided to republish "Rich Man, Poor Man" again (with a few changes and additions) along with an introductory piece entitled "Making Money." But first I want to include a few extra thoughts.

Almost daily I receive mailings from some company that is selling a new computerized trading program. All of these programs attempt to identify or predict profitable turning points in the various markets. Overbought, oversold, stochastics, channels, envelopes, astrological phases, Gann lines, Elliott counts, relative strength, on and on.

Read a copy of *Investor's Daily* or *Futures* magazine, and you'll be amazed at the sheer number of computer trading programs that are being advertised along with the usual self-serving testimonials to the effect that "we are the number one market timer" for April or for the last six months or what have you.

I'm not deriding or ridiculing these programs -- many of them are fascinating. What I do think is that these enormous, unending "technical attacks" on the markets are tending to cancel themselves out. Recently one veteran trader told me, "These markets are getting so crazy that I find I do a lot better selling the chart breakouts and buying the breakdowns."

So I ask myself, "Has the technical approach become too popular? Has the technical approach worn itself out or imploded?" I'd be hard pressed to prove it, but I do have the feeling that the market trends are less clear today, and that trading on the basis of technical analysis is a lot less profitable, a lot less satisfactory, and a lot more difficult than it was back in the 1950s and 1960s or even the 1970s.

So what's today's answer to today's investment puzzle? In view of that question, I offer the following: I'm in touch with probably 50 leading investment advisors and publishers. These men and women make their living telling other people how to make money (usually, but not always, via the stock market).

But here's the strange and ironic part of it. Very few of these advisors have ever made a substantial amount of money for themselves (I know this for a fact). And if they do make money, it's usually through profits from their publication -- and even here the "wealthy ones" are few and far between.

"Why," I ask, "Why haven't these people made any real money?" And the answer, of course, is that they don't know how to write, they know all the technques and nuances of trading, they know how to read charts -- but with it all they just can't seem to make money.

Making money entails a lot more than guessing which way the stock or bond or platinum markets are heading. For the great majority of people, making money requires a plan, self-discipline and desire. I say, "For the great majority of people", because if you're a Steven Spielberg or a Ross Perot or a Steven Jobs you don't have to know about the Dow or the markets or about yields or price/earnings ratios. You're a phenomenon in your own field, and you're going to make big money as a by-product of your talent and ability. But this kind of genius is rare.

For the average person, for you and me, we have to have a plan. In view of this, I offer here a few items that I believe you and I must be aware of if we are serious about making money.

(1) **COMPOUNDING.** We absolutely must have a knowledge of compounding. Compounding is the royal road to riches. Compounding is the safe road, it is the sure road, and anybody can do it. To compound you need discipline, perseverance, intelligence and time. You need discipline in order to save. You need perseverance to keep you on the saving path. You need intelligence in order to understand what you are doing and why -- and in order to comprehend the amazing rewards that compounding will bring you. And you need time to allow the power of compounding to work for you. Remember, compounding only works through time.

But there's one catch in the compounding process. The catch is that it's boring -- b-o-r-i-n-g. Or I should say it's boring until (after seven or eight years) the money starts to pour in. Then, believe me, compounding becomes very interesting -- in fact, it becomes downright fascinating!

	INVESTOR A		INVESTOR B	
Age	Contribution	Year-End Value	Contribution	Year-End Value
8	-0-	-0-	-0-	-0-
9	-0-	-0-	-0-	-0-
10	-0-	-0-	-0-	-0-
11	-0-	-0-	-0-	-0-
12	-0-	-0-	-0-	-0-
13	-0-	-0-	-0-	-0-
14	-0-	-0-	-0-	-0-
15	-0-	-0-	-0-	-0-
16	-0-	-0-	-0-	-0-
17	-0-	-0-	-0-	-0-
18	-0-	-0-	-0-	-0-
19	-0-	-0-	2,000	2,200
20	-0-	-0-	2,000	4,620
21	-0-	-0-	2,000	7,282
22	-0-	-0-	2,000	10,210
23	-0-	-0-	2,000	13,431
24	-0-	-0-	2,000	16,974
25	-0-	-0-	2,000	20,872
26	2,000	2,200	-0-	22,959
27	2,000	4,620	-0-	25,255
28	2,000	7,282	-0-	27,780
29	2,000	10,210	-0-	30,558
30	2,000	13,431	-0-	33,614
31	2,000	16,974	-0-	36,976
32	2,000	20,872	-0-	40,673
33	2,000	25,159	-0-	44,741
34	2,000	29,875	-0-	49,215
35	2,000	35,062	-0-	54,136
36	2,000	40,769	-0-	59,550
37	2,000	47,045	-0-	65,505
38	2,000	53,950	-0-	72,055
39	2,000	61,545	-0-	79,261
40	2,000	69,899	-0-	87,187
41	2,000	79,089	-0-	95,905
42	2,000	89,198	-0-	105,496
43	2,000	100,318	-0-	116,045
44	2,000	112,550	-0-	127,650
45	2,000	126,005	-0-	140,415
46	2,000	140,805	-0-	154,456
47	2,000	157,086	-0-	169,902
48	2,000	174,995	-0-	186,892
49	2,000	194,694	-0-	205,581
50	2,000	216,364	-0-	226,140
51	2,000	240,200	-0-	248,754
52	2,000	266,420	-0-	273,629
53	2,000	295,262	-0-	300,992
54	2,000	326,988	-0-	331,091
55	2,000	361,887	-0-	364,200
56	2,000	400,276	-0-	400,620
57	2,000	442,503	-0-	440,682
58	2,000	488,953	-0-	484,750
59	2,000	540,049	-0-	533,225
60	2,000	596,254	-0-	586,548
61	2,000	658,079	-0-	645,203
62	2,000	726,087	-0-	709,723
63	2,000	800,896	-0-	780,695
64	2,000	883,185	-0-	858,765
65	2,000	973,704	-0-	944,641
Less Total Invested:		(80,000)		(14,000)
Equals Net Earnings:		893,704		930,641
Money Grew:		11-fold		66-fold

In order to emphasize the power of compounding, I am including this extraordinary study courtesy of *Market Logic* , (3471 N. Fed. H'way, Ft. Lauderdale, FL 33306). In this study we assume that one investor (A) opens an IRA at age 19. For eight successive years he puts $2,000 into his IRA at an average growth rate of 10% (8% interest plus growth). After eight years this fellow makes no more contributions -- he's finished.

A second investor (B) makes no contributions until age 27 (this is the age when the first fellow finished his contributions). Then B continues faithfully to contribute $2,000 every year until he's 65 (all at the same theoretical 10% rate).

Let's look at the incredible results. A, who made his contributions earlier and made only eight contributions, ends up with MORE money than B, who made 39 consecutive contributions but at a LATER TIME. The difference in the two is that A had eight more early years of compounding than B. Those eight early years were worth more than all of B's 31 additional contributions.

This is a study that I suggest you show to your kids. It's a study that I've lived by, and I can tell you that it works. You can work your compounding with muni money market funds, with a good money market fund, with T-bills or with say five-year Treasury notes.

(2) The next rule is **DON'T LOSE MONEY**. This might sound like a silly rule, but believe me it isn't. If you want to be wealthy (ask Donald Trump) you must not lose money. Absurd rule, obvious rule, silly rule? Maybe, but MOST PEOPLE LOSE MONEY in disastrous investments, gambling, rotten business deals, poor timing, etc. Yes, after 40 years of experience as an investment advisor I can tell you that most people very definitely DO lose money -- in the stock market, the commodity market, in the option market and everywhere else.

(3) Here's a third thesis that I've written about before, and for want of a better name I call it **RICH MAN, POOR MAN.**

In the investment world the wealthy investor has one major advantage over the little guy, the stock market amateur and the neophyte trader. The advantage that the wealthy investor enjoys is that he DOESN'T NEED THE MARKETS. I can't begin to tell you what a big difference that makes, both in one's mental attitude and in the actual handling of one's money.

The wealthy investor doesn't need the markets because he already has all the income he needs. He has money coming in via bonds, T-bills, money market funds and stocks. In other words, the wealthy investor never feels pressured to "make money" in the market.

The wealthy investor tends to be an expert on values. When bonds are cheap and bond yields are irresistibly high, he buys bonds. When stocks are on the bargain table and stock yields are attractive, he buys stocks. When real estate is a great value, he buys real estate. When great art or fine jewelry or gold is on the "give away" table, he buys art or jewelry or gold. In other words, the wealthy investor puts his money where the values are.

And if no outstanding values are available, the wealthy investor waits. He can afford to wait. He has money coming in daily, weekly, monthly. The wealthy investor knows what he's looking for, and he doesn't mind waiting months or even years for it if he has to (they call that PATIENCE).

What about the little guy? This fellow always feels pressured to "make money," to force the market to "do something" for him. When the little guy isn't buying stocks with 2% or 1% yields, he's off to Vegas or Atlantic City trying to win at roulette. Or he's spending 10 bucks a week on lottery tickets or he's "investing" in some crackpot scheme that his bowling buddy told him about (in strictest confidence, of course).

And because the little guy is trying to force the market to do something for him, he a guaranteed, sure loser. The little guy doesn't understand values so he constantly overpays. He doesn't understand the power of compounding, and he doesn't understand money. He's the typical American, and he's deeply in debt.

The little guy is in hock up to his ears, and as a result he's always sweating -- sweating to make payments on his house, his refrigerator, his car or his lawn mower. He's impatient and he feels perpetually pressured. He tells himself that he has to make money -- fast. And he dreams of those "big mega-bucks." In the end, the little guy wastes his money in the market, or he loses his money gambling, or he dribbles it away on senseless schemes. In short, this "money-nerd" spends his life dashing up the financial down-escalator.

But here's the sad part of it, the ironic part of it. If, from the beginning, the little guy had adopted a strict policy of never spending more than he made, if he had taken the extra income and compounded it in safe, income-producing securities, then in due time he'd have money coming in daily, weekly, and monthly just like the rich guy. The little guy would have to become a financial winner instead of a pathetic loser.

(4) **DON'T TRADE:** Today's tax system militates against trading. If you make a profit you pay the tax on that profit at regular income rates. But if you sustain losses, you can only write off $3,000 a year against those losses. So the system militates against the trader.

(5) **MATHEMATICS.** For some reason, few people understand the mathematics of investing. And it's simple. If you buy a stock at $20, and the stock drops to $10 you have lost 50% or half your money (actually more because of commissions). To recoup your original investment, you've got to find a stock that will double or rise 100%. And that isn't easy.

(6) **CONCLUSION.** The only time the average investor should go outside the basic compounding system is when a given market offers outstanding value. I judge an investment to be a great value when it offers (a) safety, (b) an attractive return, (c) a good chance that the given investment will appreciate in price (in other words, when the item is undervalued). At all other times, for reasons cited above, the compounding route is safer and probably a lot more profitable over the long run.

(7) **THE REAL PROBLEM** investors face is greed (or envy). If your neighbor or your boss or your best buddy is making money in wheat or OJ or stocks and you are sitting in a money market fund, you may find yourself losing sleep and asking, "What am I doing? I'm playing it safe while that idiot, Charley, down at the office, is making a bloody fortune." So you pull out your money, jump into a few stocks and lo and behold, within six months -- you're showing a loss of 25% for your greed.

So don't do it. Stick to your own system. One of the criteria for building wealth is that YOU MUST NOT LOSE MONEY. Jumping in on the stock or bond market when they do not represent real value is the perfect formula for losing money.

The well-known financial writer, Adam Smith (his real name is George Goodman) lists the six most common mistakes in handling one's finances: (1) Spending more than you can afford. (2) Not having a plan. (3) Abdicating control of your money decision. (4) Buying load mutual funds. (5) Following the crowd. (6) "Taking a flier."

Comment: The cover of the current *Money* magazine shouts, "Six mutual funds to double." Of course, that's a ridiculous statement; the immediate question is -- double OVER WHAT PERIOD OF TIME? You will eventually double your money in T-bills or bonds or anything that pays interest or dividends but the question is over what period of time? The only point in buying anything other than safe T-bills is to try to BEAT TIME. However, to beat time, you must veer from safety, and that concept, in a way, is the whole essence of investing. To put it another way, the choice is always great safety and through time -- or less safety and hopefully a greater reward through less time.

NOTES & QUOTES: Ed Hyman's charts (courtesy of *C.J. Lawrence*) show that the trend of retail sales, debt and the money supply are all heading down (the broad M-4 money supply is at its lowest growth rate in three decades). Hyman also shows regional bank loans (reflecting business activity) collapsing in the Northeast, slowing in the West, neutral in the East and accelerating from a low level in the South.

* *

Are these the wisest words ever written about government? "Give all power to the many and they will oppress the few. Give all power to the few and they will oppress the many. Both therefore ought to have power, that each may defend itself against the other." Alexander Hamilton. Of course, that's the thinking behind the great US Constitution, though few realize it. The US has the oldest continuously constituted government on earth.

* *

As if program trading has not rendered the Dow's movements erratic and volatile enough, get ready for an even lower Dow divisor. In the next few months four Dow stocks will be splitting: Coca Cola, Westinghouse, Woolworth and the three-for-two split in Boeing. The splits will take the Dow divisor below .5, which means that any one point change in a Dow stock will move the Dow Average more than two points.

* *

The total rise in the federal debt for the last 12 months (latest figures) is $336 billion. That's the real size of the federal deficit. But wait, there's more. Government sponsored enterprise (GSE) debt was $103 billion in 1986, $112 billion in 1987, $87 billion in 1988 and $123 billion in 1989. Let's be charitable and say it will be $100 billion in 1990. Add that to the $336 billion deficit for the latest 12 months and you're talking about a total federal and GSE increase of $436 billion! I mean, we're talking about a deficit that is OUT OF CONTROL.

* *

From the June 18 *New York* magazine: "Nearly every major segment of the city's private-sector job market is suffering. Since the Crash, close to 14% of Wall Street brokerage workers have been let go -- among those dismissed were many of the best-paid people in the city. The squeeze on high-end consumer items like luxury autos has been severe. . . Demand for luxury co-ops has been hit. Prices have slipped 6.6% in the past year, and the market continues to weaken. Since the Crash, employment in the garment industry has dropped by 7.4%. Retail sales are down, especially in department stores." "The city faces a financial crisis now," says Stephen Weinstein, executive director of the Municipal Assistance Corp. Russell comment: Do you see why insiders are saying that Donald Trump is history? My own guess -- the banks will own Trump before 1990 is out.

* *

That's the story from the Big Apple, except, oh yeah, NYC has a projected deficit of $1.8 billion in its 1991 budget. . . .We know that the Southwest and Denver and Phoenix and other selected areas have been hit hard. But California is the biggie, the giant in the equation. If California real estate prices head south, we're going to see major troubles. The banks and the S&Ls have multi-billions of dollars tied up in Golden State real estate, and prices are not only sky high --they're uneconomic. By that I mean that renting a house in most of California is far cheaper than buying one. Owning California real estate was a bonanza as long as inflation was in force. But without inflation, watch out.

* *

The Bush administration is considering US participation in a plan to bail out the Soviet economy. The plan is being pushed by Germany and France. The fear -- that Gorbachev and his perestroika are on extremely shaky ground and that if Gorby goes, hard-liners may well take over. The fear also is that if the Soviet economy crashes, it will undermine the new democracies of Eastern Europe (these nations are still heavily dependent on the Soviets for imports and exports). Note: I read where one reporter spent two weeks in Moscow and couldn't find a single person who had a good word to say about Gorbachev.

* *

The state of Massachusetts' bonds are now rated Baa, one step away from junk bonds.

* *

You want to know how dry it is in San Diego? This month (June) we have had .67 of an inch of rain. That feeble rainfall makes this June the wettest in San Diego's history.

* *

For an extraordinary picture of what's happening in world markets I can recommend the various chart services of David Fuller -- *Chart Analysis Ltd.*, 7 Swallow St., London W1R 7HD. Fuller offers various point & figure chart books (weekly), and these books cover almost all of the world markets with averages, stocks, currencies, etc. Back in the 1960s I would try to get some of the leading stock market averages. I couldn't get 'em. A few of the banks kept their own indices of foreign stock averages, and some foreign stock markets didn't even have averages. Times have changed, they sure have.

* *

Ever since the average American can remember, Japan has been a copycat producer, living off the creativity of other nations. Prior to the 1960s, Japanese goods were synonymous with junk. Japanese goods filled Woolworth (which was known, when I was a boy, as the "Five and Ten"). During the 1970s and '80s, the Japanese launched their all-out effort to make the world's best products, and "Made in Japan" became synonymous with best-made and price-competitive. But if you think that the Japan of today is simply a high-tech copycat producer of high-quality goods, think again, as this front page column from the June 10 *LA Times* states. Japan is going all out for creativity, is pushing free thinking in its colleges, and is graduating more engineers and scientists per year than the US.

Japan Sets Sights on Creativity

■ Its industry is gearing up for the 21st Century by seeking to invent, not imitate. Free-thinking scientists and engineers are now prized.

By TERESA WATANABE
TIMES STAFF WRITER

TOKYO—As a young Toshiba

Furthermore, Japan's capital investment per person is now more than double that of the US. As a percentage of GNP, Japan's capital investment per person grew from 15% in 1977 to 24% in 1989. The US 1986-89 average is about 10%. The investment gap is large and growing larger, meaning that Japan will have a steadily increasing advantage over US firms. As economist Kenneth Courtis at Deutsche Bank (Asia) puts it, "Japan is positioning itself to become the new-product laboratory of the1990s, much like America was in the '50s and '60s." States the *Christian Science Monitor*, "The competitive battles of the 21st century are being decided by today's investment decisions. Unless corporate America increases its capital investment rate, those battles will soon be over."

* *

My wife, Faye, just graduated from law school -- next step -- the dreaded bar exam in July. The bar pass rate in California was a very low 43.7% at the last test a few months ago, and of course that statistic strikes terror into the heart of wife Faye and the next crop of test-takers. California now has 124,100 attorneys, so you know one thing -- there are going to be one hell of a lot of people suing each other in the Golden State.

* *

Story: Man walks down a theatre aisle, trips and breaks his leg. His wife, frantic, climbs up on the front stage and shouts frantically, "Is there a lawyer in the house?"

* *

Speaking of lawyers, 80,000 lawsuits have been filed involving the Federal Deposit Insurance Corp. and the Resolution Trust Corp. Most of the suits involve S&Ls. The federal government sues directors, appraisers and even attorneys in an attempt to hold managers accountable for fraud -- or at least to get back some of the money lost in the S&L fiasco. In 1989 legal fees connected with these suits was $171 million. This year the legal fees will rise to over $400 million. The FDIC is also hiring lawyers -- they want a staff of 1,000 by year's end. It is also hiring 400 law firms, in addition to the 600 it now uses. In fact, William Seidman (tongue in cheek, I guess) stated that the S&L mess is so huge that he thinks it will create a scarcity of lawyers in months to come.

* *

Moody's has lowered the rating on $7.6 billion of Chase Manhattan's long-term debt. This came on the heels of a lowering of Citicorp's debt rating. The problem -- too many real estate loans. Said Christopher Mahoney, an associate director of Moody's, "The US is facing a cyclical real estate problem similar to what it had in the mid-'70s, and this time we may not be inflated out of it the way we were in the late '70s."

* *

Then there's the problem of the Resolution Trust Corp, which isn't selling S&L property fast enough to suit Congress. The RTC has announced that it will be selling parcels in amounts of $500 million (that's half a billion). Real estate people are worried that parcels that large will put added pressure on the already shaky US real estate market.

* *

Watch the Women: In the upcoming 1990 campaigns, there are seven women seeking governorships, including tough Ann Richards in once-macho Texas (women already have the job in Nebraska, Vermont and Arizona). Seven women are running for the US Senate (only two women Senators there now) and 54 women are running for House seats (28 serve there now). In California the Dems are running feisty Dianne Feinstein against the Republican's Pete Wilson. Feinstein will be very tough to beat, since she is a sort of conservative Democrat. She also has an interesting vote-getting type of background -- father is a Jewish surgeon and her mother is a Catholic nurse. Russell comment: I'm all for giving the women a shot at the top jobs -- God knows the men have messed it up over the years.

* *

Based on the latest figures Wal-Mart has passed Sears to become the nation's largest retailer.... Woolworth, no slouch, is planning to build 825 new stores over the coming year.

* *

Note: based on 1989 sales, the following were the most popular car models sold in trend-setting LA -- Honda Accord, Toyota Camry, Toyota Corolla, Nissan Sentra, Honda Civic. The current (July 2) *Fortune* features an article entitled, "Here Come the Hot New Luxury Cars." The article starts, "Here comes the wake up call. In the US this year Honda's four-year old Acura division is on track to sell nearly as many cars costing $20,000 and up as BMW. Together with Toyota's Lexus, which opened for business only last September, and Nissan's Infiniti, which is two months younger, they should outsell BMW and Mercedes combined. That's not all. Within the next 24 months the Japanese will introduce nine new high-priced models in the US, including an Acura Legend that's bigger inside than a Cadillac." Russell comment: The Japanese have launched a concerted effort to take over the luxury car business. And they're winning.

* *

What does it cost for a hotel room, three meals and a car rental. *Parade* magazine checked it out in major cities and here's what they found:

City	Average Daily Total
1) New York	$312.01
2) Chicago	$255.77
3) Boston	$251.87
4) Washington, D.C.	$226.16
5) Newark	$218.38
6) San Francisco	$207.22
7) Los Angeles	$192.47
8) Dallas	$190.91
9) Baltimore	$185.84
10) Detroit	$185.40

Wise Words from my old friend Elliot Janeway (*Janeway Letter*, 15 E. 80th St., NYSE 10021: "October 15 is the deadline for bringing the deficit down within the nominal limit of Gramm-Rudman. Failure to do so requires decreing chaos by 'sequestering' the Treasury's spendable cash. The Administration, however, has an 'out' once labelled unthinkable, but now increasingly unavoidable -- to suspend Gramm-Rudman by admitting the onset of recession. It's political embarrassment would

be enormous, but it might buy a mealy-mouthed compromise with Congress until after the 1992 elections. Then the coast will be clear for a lame-duck special session of Congress to trade out 'revenue enhancers' with the lobbyists."

THOUGHTS, OPINIONS: I recently received a letter from a widely circulated "market digest" advisory. The owner writes that he already receives "over 450 advisory services on a complimentary basis. Your's," he confesses, "is the only one we have ever purchased." The owner goes on to say, very politely by the way, that after paying for *Dow Theory Letters* for years, he would now like to receive the Letters on a complimentary basis.

I do trade my service with some other old timers such as Granville, Weinstein, Zweig, Bank Credit Analyst, Market Logic, Bretz, Chartcraft, Bob Gross, McMasters. But these were trades that were all started many, many years ago, and almost all the owners and publishers are friends of mine.

But the truth is that I don't want my thoughts and opinions published copiously in other publications. I don't think it's fair to my subscribers, men and women who pay their hard-earned money to read what I have to say.

I was on *Wall Street Week* with Lou Rukeyser (yeah, he does look and act like George Washington) some years ago, and truthfully I didn't enjoy the experience. And I wasn't thrilled by the exposure. In the late-1950s and all during the '60s I wrote many articles for *Barron's,* but those articles were written back in the days when technical analysis was considered "voodoo market nonsense." At the time almost no one was writing about Dow Theory or any other technical theory.

Today the newspapers and magazines (and even the brokerage ads) are filled with all kinds of advice, technical and fundamental -- some of it good and some of it worthless. And I sometimes think the advice from all quarters is being overdone. As a result, I've been less and less inclined to do interviews or write articles. But there are two items I can't resist, so I will be speaking at my two favorite seminars, the ISI get-together in San Franciso in August and Jim Blanchard's big shin-dig in New Orleans in October. Other than those two, my instinct is to cool it.

This may sound egotistical or just plain stupid, but subscriptions here continue at near-record levels, and consequently I figure I must be doing something right. So for all of my loyal subscribers who lay out their hard-earned bucks to read *Dow Theory Letters,* my sincere thanks.

For those of you who read these Letters (gratis) at your public library or at your broker's office or in your neighbor's living room, for all of you I say, "Welcome to Dow Theory Letters". Oh yes, if you move, I hope you'll miss the Letters and subscribe on your own. By the way, that does happen -- frequently.

One more thing -- for information on the San Francisco seminar call (813) 955-0323. For info on the New Orleans seminar call (800) 877-7633. Both towns are famous for fun, food and scenery, the ideal settings for seminars.

GOLD: I keep thinking of those gold sales of a few weeks back, sales that knocked the price of gold down over 5% in a day. They didn't make sense to me. The sellers (the National Commercial Bank of Jeddah -- Saudi Arabia) could have done private transactions with one or more central banks or they could have sold the metal slowly over a period of a month or more. To unceremoniously dump huge quantities of gold on the open market is ridiculous -- unless you want to knock the price down and demoralize the market.

The other report is that the Soviets were forced to dump large quantities of gold on the market in order to pay for their purchases of foods and other materials (Russia's creditors had stopped shipping supplies).

Then three weeks ago it was reported that the US will sell the Saudi's $4 billion worth of defense equipment including the previously secret and restricted AWACs. Was this part of the gold-dump deal? In international politics, anything goes.

The other explanation I heard (they all fit together) is that the US pressured both Russia and the Arabs to dump gold on the open market in order to make the dollar and US Treasury bonds more attractive,or to put it another way -- to make *gold a less attractive alternative to US bonds.* Remember, with US deficits rising ever higher and with the huge S&L fiasco to be financed, there will be an endless torrent of Treasury bonds coming to market. In view of that torrent, the last thing in the world the US Treasury wants is a rising trend in gold, a rise that would put the dollar under suspicion.

On the other hand, who gives a darn WHY gold went down. If gold declined against the true fundamentals, then it will recover in due time. If gold went down because it was "too high," then it would have gone down anyway and the dumping simply hastened the fall.

My own opinion is that gold represents good value under 400. The reserves of almost every nation in the world are made up of large percentages of dollars and much smaller percentages of gold. So far, there's no questioning the fact that there is confidence in the dollar. This confidence continues despite the fact that (1) the US government does not define what a dollar is, (2) the US government continues to run up deficits at the rate of over $1 billion a working day, (3) the US total debt is so massive that it can never be paid off. Remember, Congress and Mr. Bush aren't talking about reducing the federal debt. They're only talking about reducing the rate at which the deficits are climbing!

Then there's this thought: In 1989 the total world production of gold was $22 billion figured at $350 an ounce. This total world production is equal to less than three weeks of US deficits!

A good deal of the US's massive debt is purchased each year by foreigners. Over any extended period of time, gold tends to jibe with the amount of foreign holdings of US debt. If gold moves into its historical position in relation to foreign holdings of US debt -- it would sell for $1200 an ounce.

All this not withstanding, gold should be considered the utlimate hedge against economic disaster. Historically, gold proved to be a good hedge against the disaster of inflation. But how about deflation? And in view of the top-heavy debt structure in the US, a real deflation would almost surely rock the financial structure of the nation -- in which case the dollar would come under great suspicion, and gold would become the money of last resort.

Amid all the gold bearishness, gold on Monday (June 25) popped well over the 350 level (350, by the way, seems to be about the level at which central banks will step in and buy large quantities of gold).

LATE NOTES: Divergences continue with the Dow still trying to "look good," while the D-J Transportation and Utility Averages continue to lag or sink. I repeat that this market will not fall apart until the strongest element (which is obviously the Dow) moves into a definite downtrend. This has not happened. When it does, the place it will show is in my Dow directional chart, which is still in a bullish trend.

Meanwhile, the PTI is looking toppy, and as this is written the PTI is only eight points above its moving average. Consequently, any important market decline this week will send the PTI into a bearish mode.

NEXT MAILING: July 11